



PERSPECTIVE

Thriving through change

2019 Insurance industry pulse check



I bank with Macquarie



What's the state of the insurance broking industry today? How will businesses continue to drive change through better use of technology? Who is outperforming and why? And how does your business compare to those outperforming?

To answer these and other key questions, Macquarie Business Banking ran a targeted survey focused on the operations and technology employed at insurance broking firms around the country. It reveals an industry thriving amid accelerating change, with the best-performing firms taking advantage of new technologies to service more clients, more efficiently.

Business type

| | |
|----------------|-----|
| Self-licensed | 63% |
| Authorised rep | 37% |

Network

| | |
|-----------|-----|
| AUB | 30% |
| IBNA | 28% |
| Steadfast | 34% |
| Other | 8% |

About the research

Our pulse check is based on a focused online survey of 194 insurance brokers across Australia, conducted for Macquarie Bank by Fiftyfive5 in September 2018.

Business age (years)

| | |
|-------|-----|
| <10 | 27% |
| 11-30 | 38% |
| >30 | 35% |

Embracing change

Introduction

Welcome to our Insurance pulse check – a deep dive into the key issues shaping your industry. This year’s research confirms that the overwhelming majority of broking businesses are prospering, with growing revenues and healthy margins. Yet responses also indicate that many believe further changes are on the way.

In the short term, premiums have continued to harden, as we move through the latest phase of the insurance life cycle. Looking further ahead, our survey shows that brokers see a host of potential challenges emerging – from regulatory intervention and technological change, to increased price-sensitivity among clients, and heightened competition. The value of advice and client engagement has never been more important.

All of these trends have been foreshadowed in earlier benchmarking studies, however it seems that they are becoming increasingly urgent – and that Australia’s leading insurance brokers are now actively embracing change. Responses to our survey also indicate that making decisions for the future is uncomfortable, and a challenge for many.

Although still feeling their way with technology, higher performers are ahead of the curve in harnessing innovation to increase productivity. Among other strategies, we’ve seen brokers partnering with technology-based businesses, launching pilot projects to automate and streamline their operations. Experiments like these point to the potential for established businesses to transform both themselves and the industry.

Our research suggests that these efforts to leverage technology are yielding tangible results, driving higher margins and revenue growth. Yet it also shows that the end-client and their experience needs to be front of mind as brokers look to refine sustainable growth strategies. Encouragingly, our research suggests that high performing brokers are already taking advantage of improved productivity in the back office to deliver a superior client experience – creating more focused and sustainable businesses.

I, or your Macquarie insurance industry specialist, would welcome the opportunity to hear your perspective.

Eoghan Trehy

National Head of Insurance
Macquarie Business Banking

The higher performers

Driving growth through innovation

To identify the higher performing businesses best positioned to take advantage of the opportunities created by an evolving insurance marketplace, we looked at four key characteristics:

- stability of revenue, at greater than \$1m
- positive revenue growth
- high profit margins (over 30%), and
- a commitment to continuous innovation

Using this definition, around 16% of the firms in our survey were identified as higher performers. These firms stood out for their impressive margins (an average of 37.5%) and focus on searching out new ways to service their clients more effectively. Many were large, well-established, multi-partner businesses, using economies of scale to increase efficiency. Yet they also used their financial strength to invest in new technologies and streamline their operations, with tangible results.

How we define high performance

Innovators

Say they continuously drive innovation

With stable revenues

FY2018 revenue >\$1m

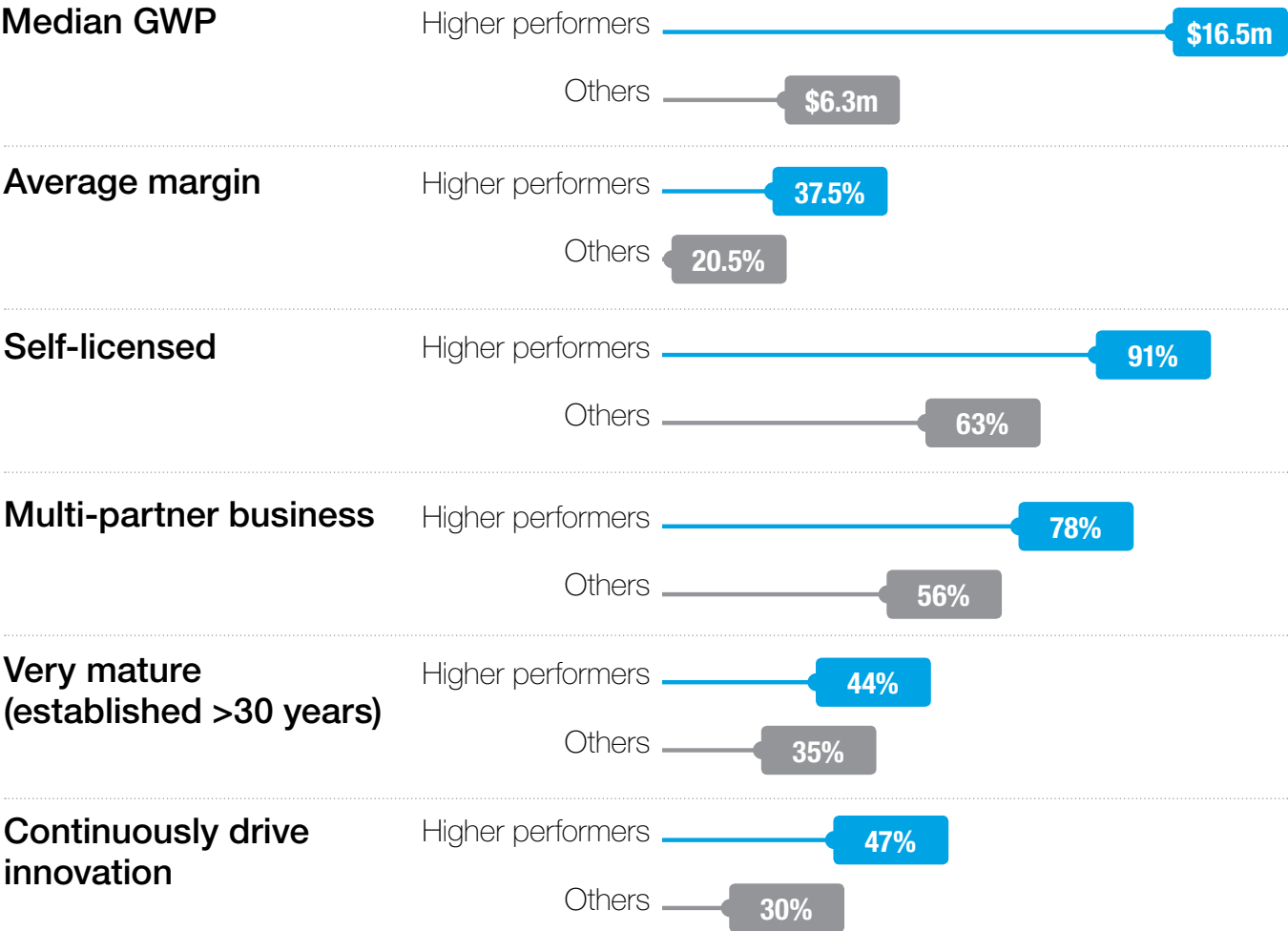
Revenue growth

Grew revenues in FY2018

And high margins

Profit margin >30%

Profile of a higher performer



The drivers of higher performance

A focus on efficient service delivery

What drives the success of higher performing businesses? In a recent Deloitte Access Economic paper Restoring trust in financial services in the digital era, remaining relevant in the face of shifting consumer expectations was called out as a key driver, particularly as these expectations have been changed by new technology offerings and leading experiences elsewhere in a customer's ecosystem of providers. In Deloitte's survey, 53% of respondents believed that the digital experience with their financial providers needed improvement, calling out insurance providers as lagging behind banks with reference to customer experience. The opportunity for insurance brokers to fill the void between

existing and ideal client experience, and improve the outcome for the client, provides a platform to add value in a service and expertise related industry.

Analysing the data, we identified six core drivers of high performance across three key areas of the business: technology, operations and client experience. In each of these areas, higher performers are looking for opportunities to increase efficiency and deliver a higher quality service.



Deloitte Access Economic paper: Restoring trust in financial services in the digital era.

<https://www2.deloitte.com/au/en/pages/financial-services/articles/restoring-trust-financial-services-digital-era.html>

Six core drivers of higher performance

■ Higher performers
■ Others

Technology



1. Invest in technology

High technology adoption



Invest in broking systems



2. Willingness to act in uncertainty

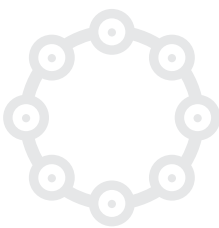
Uncertain about what to invest in



Waiting for tech costs to fall



Operations



3. Streamline operations

Streamline operations and admin



Use streamlined placement solutions



4. Harness data

Use data to make decisions



Use data to drive efficiency



Client experience



5. Focus on innovative offering

Plan to focus on improving their offering



Add adjacent offerings where relevant



6. Use technology to improve the client experience

Automate manual functions in client service



Challenges

Keeping pace with tech while focusing on clients

Despite healthy business conditions, the majority of participants believed that multiple issues will emerge to challenge the established insurance broking business model. While over 80% of respondents identified increased regulation and compliance as key issues, these are hygiene factors in professional services; a cost of being in business, and while important, difficult to influence.

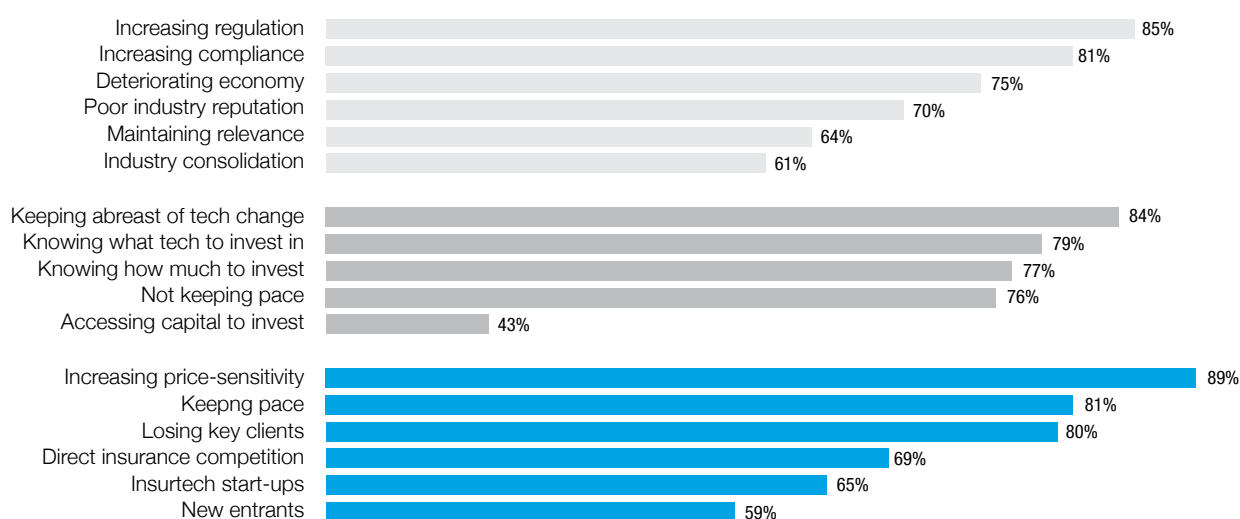
Technology was a key concern, with respondents conscious that they need to take action, but uncertain of what to invest in (79%), how much to invest (77%) or how to keep abreast of innovations (84%). In other industries, the impact of technology has been profound. First movers and fast followers are likely to

lead the way, building a business that can withstand change. In this survey, there were no large differences in technology usage between higher performers and other participants. The larger brokers and those with a progressive mindset are those to keep an eye on – but it is very mixed, and no one strategy will be sufficient to capitalise upon opportunities.

Most see rising competition as a challenge, fuelled by increasing price sensitivity and industry competitors.

This level of concern is remarkable for an industry with healthy margins and a history of strong revenues across economic cycles. Clearly many insurance brokers believe that change could be just over the horizon.

Emerging challenges (next 3 years)



■ Industry ■ Technology ■ Competition

Finances

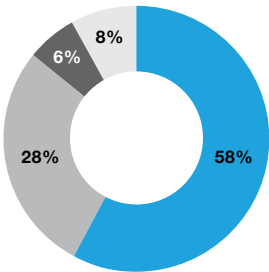
Profits rising as business conditions improve

Insurance broking businesses continue to grow, with average revenues rising from \$2.39m to \$2.51m between FY2016 and FY2018; a 5.4% increase. That's a solid result, reflecting improving business conditions, as well as recent premium hardening. And some firms did even better, with one in three reporting revenue growth above 10%, and 6% lifting revenues by more than 30% in FY2018.

Average profit margins have also remained healthy, edging up from 23.2% in FY2016 to 23.8% in FY2018. 89% of firms reported margins of 10% or more, up from 75% two years ago. And 30% of respondents had margins over 30% – further proof of the continued resilience of the industry.

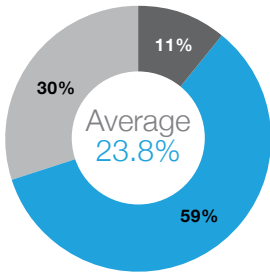
Average revenue
2018 \$2,513,966
2016 \$2,385,000

Revenue growth in FY2018



■ <10% ■ 11% - 30% ■ >30% ■ Prefer not to say

Profits



■ <10% ■ 11% - 30% ■ >30%

Client experience

Simplifying the insurance experience

New technologies have transformed industries and contested established business models. Each transformation has been made possible by challenging supply chains. These transformations have benefited both businesses and clients, yielding efficiency gains, automated processes, and a superior client experience.

Technology will have an increasing impact on insurance over the years ahead. Direct online insurers, identified as a competitive challenge by two-thirds of our survey respondents, already have the potential to disintermediate brokers for less complex covers. In the longer term, insurtech and data analytics have the potential to impact brokers' current role in determining risks and selecting carriers for more complex policies, although that potential has yet to be realised.

However, technology offers more opportunities than challenges. By harnessing new tools, insurance brokers can streamline their operations to service more clients, more efficiently – driving down costs, improving the client experience and cementing their role as indispensable and trusted advisers.



Client



Retail broker



Underwriting agency



Insurer



Reinsurance broker



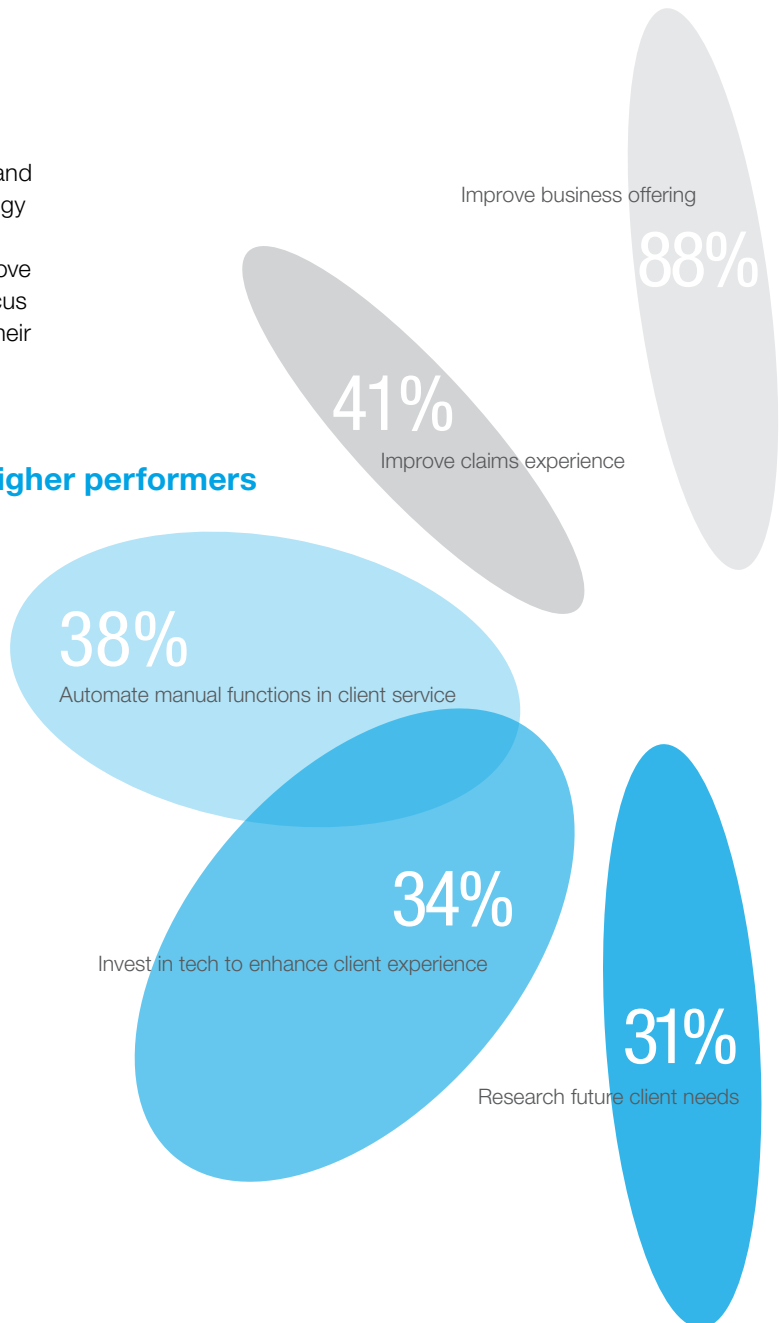
Reinsurer

Client experience

Freeing staff to focus on clients

Higher performing businesses were strongly focused on improving their business offerings and the overall client experience. By using technology to simplify or automate both back office and client service functions, they were able to improve service delivery while liberating their staff to focus on spending time with clients, understanding their risks and improving claims success.

Focus areas – higher performers



Operations

Streamlining your business

This year's research once again highlighted the opportunities to increase performance and profitability by creating operational efficiencies. Almost two thirds of the brokers in our survey planned to streamline administration and operations – but higher performers stood out for their single-minded focus on improving key aspects of their operations.

By investing in technology and operational improvements, high performing businesses were positioning themselves to become more efficient across the entire customer life cycle – from instant quotes to self-service portals and an improved claims process. They were also significantly more likely than other businesses to draw on data to make better decisions and improve their business processes.

Focus areas – higher performers

38%

Invest in operational systems

47%

Use streamlined placement solutions

53%

Use data and information to drive efficiency

56%

Automate repetitive manual tasks

78%

Streamline operations and administration

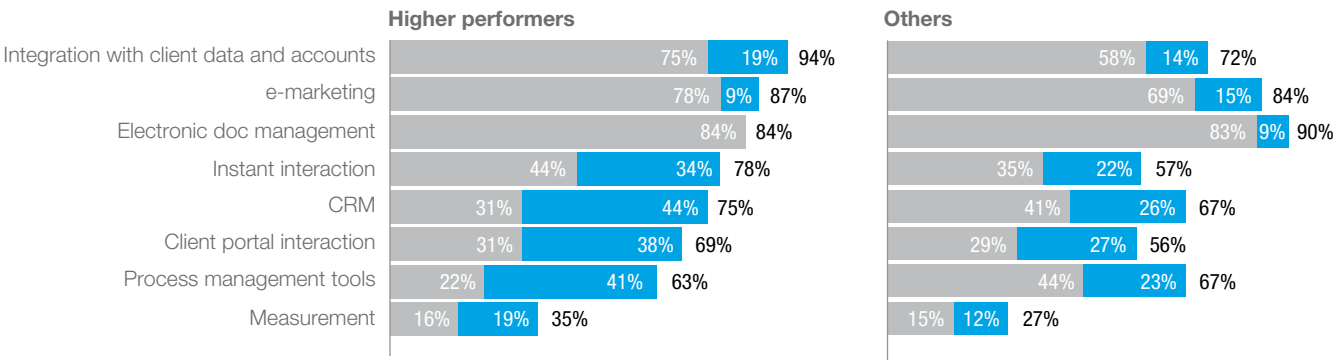
Technology

Searching for new solutions

The story of technological innovation in insurance broking is unfolding. Across our survey, brokers were uncertain about where to invest and how to integrate new technologies into their businesses – and higher performers were less certain than others. The distinguishing feature of higher performing businesses is that they are actively searching for new solutions, adopting technologies across a whole range of

areas, particularly those designed to increase back-office efficiency (APIs, integration and accounts) or enhance the client experience (instant interaction and client portals). They were also more likely to have plans to introduce new technologies within the next two years, helping them stay ahead of the curve.

Current and planned technology adoption



■ Currently using ■ Will use in 1-2 years

Opportunities to thrive

Operations and administration

- Workflow tools
- Accounts receivable tools
- Optimise customer relationship management tools
- Automated document creation

Client services

- Automated estimates and quotes
- Online claim lodgements
- Freeing staff to spend time with clients

Client experience

- Client journey and value mapping
- Tiered service model
- Client segmentation
- Processing efficiencies
- Self-service portals
- Retention strategies

Adjacent growth opportunities

- New products
- New markets
- New schemes
- Online only product offerings

People

- Aligned and balanced portfolios
- Collaboration with clients and team
- Administrative efficiencies to focus on revenue generation and new business
- Flex in mix of fee and commission structure
- Adding value through advice, rather than product
- Reward productivity

This year's pulse check highlights the opportunities for insurance brokers to drive growth and add value by improving efficiency and automating processes. Here are some strategies to consider.

Discover how
we can keep
your business
in front

**For a closer look at how your
business is performing against
key industry benchmarks,
please contact your Macquarie
Relationship Manager
or visit**

macquarie.com/insurance-broking

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